

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2015/2016

### BBF3034 – ANALYSIS AND VALUATION OF FINANCIAL STATEMENTS

(All sections / Groups)

13 OCTOBER 2015

2.30 p.m – 4.30 p.m

(2 Hours)

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#### INSTRUCTIONS TO STUDENT

1. This Question paper consists of 4 pages with 5 Questions only.
2. Attempt **FOUR** out of **FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

**QUESTION 1**

- a. Identify and describe the two major reasons for analysing a company's financial statements. (12 marks)
- b. Isha Co. starts its business by raising RM250,000 in cash (RM150,000 from equity issuance and RM100,000 by issuing 6% bonds at par. The entire amount of cash was used by Isha to buy a building, which it rents out for RM20,000 per year. The opening balance sheet of Isha Co. for the first year of its operation is given below.

|   | Year 1         |
|---|----------------|
| <u>Assets</u>                               |                |
| Cash  | RM0            |
| Building                                    | 250,000        |
|   | <u>250,000</u> |
| <u>Liabilities and Shareholders' equity</u> |                |
| Long-term debt                              | 100,000        |
| Shareholders' equity                        | 150,000        |
|   | <u>250,000</u> |

The building is valued at RM300,000 at the end of Year 1. Moreover, the market value of the bonds had fallen to RM90,000.

Assumptions:

- useful life of the building is 40 years
- building's salvage value is RM80,000 at the end of that period.
- rental income is received on the last day of the year.
- interest on bonds is also paid on the last day of the year.

Prepare the year-end balance sheet and income statement of Isha Co. based on *fair value accounting* and *historical cost accounting*. (13 marks)

(Total: 25 marks)

**QUESTION 2**

As a financial analyst, you are requested to analyse a company which has a reported earnings of RM60,000 for the year end 2014 and a book value of RM400,000 at the end of year 2014. The dividend payout ratio is 40% and the earnings are expected to grow at 5% for the next two years after which it is expected to grow at 3% a year in perpetuity. The company's cost of debt is 8%, while the cost of equity is 10%. Compute the price of the company's shares at the year-end 2014 if the company has 30,000 shares outstanding.

(Total: 25 marks)

Continued...

**QUESTION 3**

- a. Sharewin Corp.'s condensed balance sheet for Year 2 is shown below:

|                   |                    |
|-------------------|--------------------|
| <b>Assets</b>     |                    |
| Current assets    | RM250,000          |
| Noncurrent assets | 1,750,000          |
| Total assets      | <u>RM2,000,000</u> |

|                                   |                    |
|-----------------------------------|--------------------|
| <b>Liabilities and Equity</b>     |                    |
| Current liabilities               | RM200,000          |
| Noncurrent liabilities (8% bonds) | 675,000            |
| Common stockholders' equity       | 1,125,000          |
| Total liabilities and equity      | <u>RM2,000,000</u> |

Additional information:

1. Year 2 net income is RM157,500.
  2. Income tax rate is 50%.
  3. All assets and current liabilities are considered to be operating.
- i. Compute the net operating profit after tax (NOPAT) and return on net operating asset (RNOA) for Year 2. (9 marks)
- ii. Compute the return on common equity (ROCE) for Year 2. (3 marks)
- b. Illustrate the disaggregation of RNOA and ROCE. Explain each of the components. (10 marks)
- c. Differentiate between *year-to-year change analysis* and *index-number trend analysis*. (3 marks)

(Total: 25 marks)

Continued...

**QUESTION 4**

a.

|                       |             |
|-----------------------|-------------|
| Sales                 | RM1,500,000 |
| Cost of goods sold    | RM700,000   |
| Beginning receivables | RM150,000   |
| Ending receivables    | RM250,000   |
| Beginning inventories | RM350,000   |
| Ending inventories    | RM400,000   |

Using the data above, calculate the following ratio:

- i. Accounts receivable turnover (3 marks)
  - ii. Collection period (3 marks)
  - iii. Days' sales in receivables (3 marks)
  - iv. Inventory turnover (3 marks)
  - v. Days to sell inventory (3 marks)
  - vi. Days' sales in inventory (3 marks)
  - vii. Conversion period (3 marks)
- b. Return ratios are typically used in TWO ways. Explain each one of them. (2 marks)
- c. Explain the fundamental factor model. (2 marks)

(Total: 25 marks)

Continued...

**QUESTION 5**

Below is the balance sheet for Mona Corporation.

**Mona Corp.'s Balance Sheet as at December 31, 2013 and 2014**  
(in thousands)

|                              | <b>2014</b> | <b>2013</b> |
|------------------------------|-------------|-------------|
| Cash                         | RM 50,000   | RM 40,000   |
| Receivables                  | 220,000     | 300,000     |
| Inventories                  | 180,000     | 100,000     |
| Total current assets         | RM 450,000  | 440,000     |
| Net fixed assets             | 300,000     | 250,000     |
| Total assets                 | RM 750,000  | RM          |
| Accounts payable             | RM 100,000  | RM 80,000   |
| Notes payable                | 50,000      | 60,000      |
| Total current liabilities    | RM 150,000  | RM 140,000  |
| Long-term debt               | 150,000     | 200,000     |
| Common stock                 | 200,000     | 120,000     |
| Retained earnings            | 250,000     | 230,000     |
| Total liabilities and equity | RM 750,000  | RM690,000   |

The net income and depreciation amount for year 2014 is RM100,000 and RM30,000 respectively. Prepare the statement of cash flows for year 2014 using the indirect method.

(Total: 25 marks)

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